

**2008 Medicare Trustees Report:
*Outlook Strong by Historical Standards,
But President Bush and Republicans Waste Resources on Corporate Subsidies***

While President Bush has presided over an unprecedented drop in solvency and created a new arbitrary measure designed to scare people into thinking that Medicare is unaffordable, Medicare remains strong. By historical standards, the Trust Fund will be solvent for as long or longer than 16 out of the last 37 reports in which projections were provided. But Republican efforts to privatize Medicare are taking their toll.

Current projections. According to the 2008 Medicare Trustees Report, under the intermediate assumptions, the Medicare Part A Trust Fund becomes insolvent in 2019. This is the same as last year's projection.

President Bush has taken Medicare in the wrong direction. Since the 2001 report, solvency projections have dropped by 17 years. While this date is not alarming by historical standards, the pattern stands in stark contrast with the increased solvency seen during the 1990s.

This year's report triggers additional Presidential proposals to cut Medicare. The 45 percent trigger is an arbitrary measure created by the MMA to cap Medicare's funding. Last year's report contained the second warning that the projection is in sight, triggering a statutory mandate for the President to submit legislation under which Medicare would meet this formulaic requirement. He did so early this year, rejecting his own budget with its exorbitant cuts in Medicare. Instead, the President targeted beneficiaries with even higher costs while protecting corporate subsidies to the insurance industry. Absent repeal of the trigger, as was contained in the House-passed Children's Health and Medicare Protection Act (the CHAMP Act, HR 3162), the new President will inherit this phony requirement to submit legislation responding to this unfounded measure.

Private plans cost substantially more than traditional Medicare. According to MedPAC, Medicare private plans are paid *on average* 113 percent of the cost of traditional Medicare. In some areas, the payments are more than 150 percent the cost of traditional Medicare. Last year, CMS Chief Actuary Rick Foster confirmed in testimony before the Committee on Ways and Means (4/25/07) that there are *never* any savings under the current Medicare Advantage program. The Chief Actuary also testified at that time that eliminating these overpayments – as MedPAC recommends – would extend solvency of the Part A Trust Fund by [two] years. Eliminating the overpayments would save \$50 billion over five years and \$157 billion over ten years.

Privatization reduces solvency and increases premiums. Because payments for private Medicare Advantage plans are drawn from both Parts A and B, the overpayments erode solvency, raise premiums for all beneficiaries and hasten the so-called 45% trigger. In addition, Medicare's administrative costs are less than three percent of benefit payments, which is far below those of private plans. Contrary to Republican rhetoric, private plan "competition" exacerbates Medicare's fiscal challenges.

Lower Part D projections have little to do with "competition." Despite claims by the Administration and others, there are a number of reasons for lower Part D expenditures, including data indicating slower overall growth in drug spending in 2006 and a decline in the number of new drugs expected to reach the market, which have then been used to lower projections of future growth. Lower than expected participation, especially among low-income beneficiaries who need the most help, also lowered spending projections; the latest estimates predict that just 32 million beneficiaries will receive subsidies under Part D in 2008,

compared to an estimate of 41 million when the law was enacted. Finally, while Republicans will claim that lower plan bids mean “competition is working,” plans appear to be aggressively underbidding to gain market share and drive out other plans. If a few large plans succeed in consolidating the market, dramatic premium increases are likely.